

Before the Joint House and Senate Committee on Tax Restructuring
Grand Rapids, Michigan
Wednesday, May 2, 2005

Good afternoon Senators and Representatives. I am a small business owner, President of State Tax Solutions, LLC, a state tax consulting firm for large multistate companies. Prior to owning my own business, I spent 20 years in charge of all aspects of state and local taxation for Amway Corporation. I am also a Member and Past Chair of the Michigan Chamber Tax Committee and currently sit on the Chamber's Board of Directors. In an earlier life, I was an auditor with the Michigan Department of Treasury. I am pleased to have this opportunity to address you.

Following the release of the Governor's SBT proposal, my reaction was favorable to the tax cuts being afforded some members of the manufacturing community but was baffled by the tax shift that would burden 22,000 businesses with significant tax increases. Some of these businesses were manufacturers with billions of dollars in international and domestic sales.

The reason for this anomaly is that the proposal penalizes companies with significant profits and favors those companies that are only marginally profitable or losers.

One has to remember that the SBT is a modified VALUE ADDED TAX. VATs attempt to tax the value added by a business to the economy. VATs are due even when the businesses are operating at a loss. It is closer to a sales tax than an income tax.

This proposal, by legislative fiat will triple the weighting of the profit factor in the tax base of profitable companies. To keep triple weighting of income in the tax base, sends a horrific message to many profitable companies headquartered in this state and discourages other profitable companies from considering Michigan as a place to expand or locate. Ironically, losses are not triple weighted. This sends a harmful message to start-up companies. "Stay out of Michigan!"

Additionally, I am sure that there are out of state companies that are waiting in the wings to attempt to recast this new tax concoction as a tax measured on income. If successful, this would afford many companies Federal protection from paying any SBT to the state.

I would recommend that you design a tax cut package for all businesses. Asking 22,000 businesses to pay for the 77,000 businesses that are favored, is a shifting of wealth to the have-nots. This socialistic policy has no place in a free enterprise system.

Finally, I leave you with a question:

Do profitable companies add jobs and contribute to a robust economy or do companies that bleed red ink?